PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

The global economy is flourishing, albeit slightly less strongly than last year. The expected slowdown in the US economy in particular has now become a reality. The first four months of the year have brought positive – but not above-average – returns for traditional investors. Only the somewhat more innovative and forward-looking investors have enjoyed above-average performance.

In our article on page 7 of this issue of Check-Up, we outline how we are constantly looking out for such ideas and also putting them into practice. Our main feature summarizes the increases in financial market risks, and shows how we are positioning your portfolios and our funds in the current market environment. And as in the previous issues of Check-Up, on the back page we present an example of a family solution within the framework of our integral investment management.

We hope you enjoy reading our publication, and we wish you a very pleasant summer.

Jürg Staub
General Partner

THE PITCHER GOES OFTEN TO THE WELL

THREAT OF INFLATION AND RISING RISK OF A FINANCIAL CRISIS

In the first four months of the year, our alternative investment vehicles Matterhorn (+6%) and Himalaya (+4%) in particular posted pleasing results. Such performances are satisfying a growing number of investors, and in this asset class we now manage some CHF 2.5 billion. Our real estate stock selections also produced exceptionally good results, up by 15-20%, especially J-REITs (Japanese real estate stocks), which rose by over 20%. Vietnam has also confirmed the good trend seen in recent years. Individually, these ideas, in proportion to their weightings, all contributed to the good results of the separately managed portfolios. Together they were a key factor for our outperformance.

Positive drivers of the real economy

The global economy is currently benefiting from the support of some powerful fundamental forces. One of these is rapid growth in Asia – China especially – and India, as well as in Eastern Europe. Besides this, we are seeing essential investment in the renewal and maintenance of infrastructure in the countries of the West. However, for the past two decades, money has been expended on the present, rather than invested for the future, exemplified in the fact that even Switzerland has come up with no solution to electricity shortfalls other than the gas power-stations which emit high levels of greenhouse gases.

Risks in financial markets

Meanwhile, in financial markets the risks are mounting. Stock markets seem to have recognized the healthy state of the global economy, and priced it in at an early stage. However, the more that increasing imbalances develop, the greater the risk of a crisis in financial markets. Also, healthy economies have meant very high capacity utilization, while falling unemployment has led to rising wages. Inflation is therefore more likely to surprise on the upside. It is also being boosted by the debate on climate change and calls for renewable energy sources: there has already been, for example, a sharp rise in US farmland prices, so that the cost of food, as well as increasing energy and raw material prices, will also slowly but surely filter through to inflation.

Diversification in the modules

Against this backdrop of a positive real economy and mounting risks in financial markets, broad diversification remains

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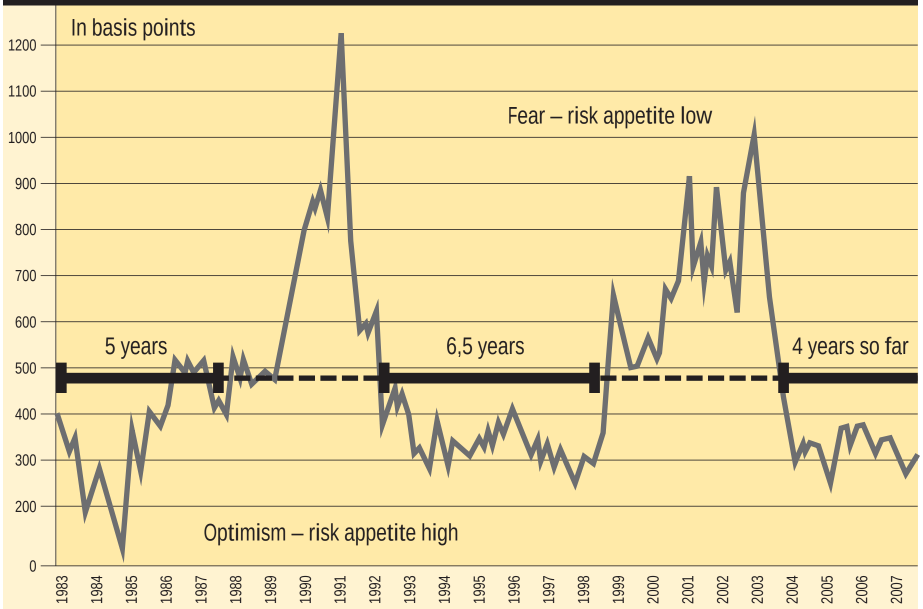
CONTENT

RISK PREMIUMS FOR HIGH YIELD CORPORATE BONDS ARE TOO TIGHT



Source: NDR

advisable. With the threat of rising inflation and with lower yields, fixed-income investments are still uninteresting, and we are holding them purely as a security cushion, preferably in the money market or investments with very short maturities. With equities, we are focusing on the sectors and stocks that can profit from the positive economic drivers worldwide: in particular, infrastructure producers, healthcare stocks, basic materials and banks in the emerging markets. We view positively selected alternative investment vehicles such as our funds of funds, Matterhorn and Himalaya, which, barring external shocks, can be expected to continue to post above-average performance in 2007. The potential of real estate stocks is less than it was, but they still provide promising investments in countries with low real interest rates and a demand for increased urban development. Finally, we are holding gold, as a form of currency diversification and as a protection against catastrophes.

Partial hedging

At present, we see four main risks for investors:

1. Excessively high leverage

The long period of low interest rates and healthy financial markets has led to excessively high leverage. Lending limits are being stretched further and further, in some cases permitting loans of several times the borrower's assets. The large number of new structures now available means that one and the same assets are often being counted as security for several different loans. If this value accretion cycle takes another turn, a sharp correction is inevitable. It is possible partially to hedge against this, for example with bear spreads, i.e. a put option strategy involving the purchase of a put option based on current market levels, to be followed by a sale after a market fall of about 15%. The costs are thus relatively low and the spread compensates for part of any potential losses (please see page 6).

2. Below-average credit spreads

Credit spreads on borrowers with lower ratings are currently too tight. The primary reason for this is the securitization of such credits or loans and their allocation to various quality categories. This has become possible because the ratings agencies base their calculations on historical data. However, the market for high-yield bonds has changed, and the former assumptions no longer seem to apply. We believe that it is here that lurks the greatest threat for investors. We expect credit spreads to widen. It is still unclear what might trigger this, but the first such «short credit» strategy that we have implemented, since August 2006, in Reichmuth Matterhorn, on the US (sub-prime) mortgage market, has already made a very pleasing contribution to our performance. This pattern could next occur in the high-yield bond sector. However, at present we can make such an investment only via specialist money managers in Matterhorn.

3. Carry trades

It is not only speculators that have borrowed money in countries with low interest rates – house owners have also. This strategy is risky, and will in time lead to heavy reversals, with corresponding turbulence in financial markets. An example of a way of protecting against this is a purchase of JPY call / EUR put options, which would offer protection against rapid liquidation of the enormous outstanding carry trade holdings.

4. USD collapse

The USD is still potentially under threat. Its fate is in the hands of Asian central banks and commodities dealers. Movements in the USD exchange rate will therefore be decided primarily by foreigners. In fact it is their problem also, in proportion to the size of their USD holdings. We are therefore advising non-American investors to continue to avoid USD investments, or to hedge.

Cautiously optimistic

Last but not least, we would like to stress once again that we are not positioning ourselves for a financial market crisis. We are cautiously optimistic and are prepared to bear some insurance costs. Owing both to market size considerations and to regulatory requirements, we can implement these partial hedging strategies mainly in our funds, and unfortunately not in all portfolios.

We look forward to our next discussion with you.

Your Reichmuth & Co Team

MARKET OUTLOOK
2nd TRIMESTER 2007

INTEREST RATES

USD interest rates remain stable, while in Europe and Japan they are continuing to rise. Long-term yields remain low.

The growth in the world economy remains persistently robust, with no end in sight for the boom in Asia and Eastern Europe. Only in the USA does there appear to be a weakening in growth, albeit without slipping into a recession. Against this backdrop, the central banks are having to take a somewhat more restrictive stance with regard to their monetary policies to nip the threat of inflation in the bud. Upward pressure on prices has strengthened in the USA in particular, and the Fed has therefore refrained for the time being from making the interest rate cut that was expected until just recently. In Europe, the next increase in key interest rates by the ECB and the Swiss National Bank is on the cards for June, with further moves probably set to follow in the second half of the year. A rising trend persisting over the longer term is also to be expected in Japan, where money market rates are still below 1%.

Long-term yields have risen slightly in recent months, but less than money market rates. The yield curves have therefore flattened and in the USA the curve is even inverted. They are likely to continue to follow the interest rate trend on the money markets to a less pronounced extent in the coming months, i.e. rising slightly in Europe and Japan and remaining practically unchanged in the USA. In light of the low inflation rates, the level of bond yields will remain low compared to the long-term average.

The yield premiums of bonds without first-class ratings remain low, and thus offer only unsatisfactory compensation for the default risks, which are tending to rise.

CURRENCIES

The USD will weaken over the long run, especially against the JPY, while in Europe the CHF will overcome its weakness vs the EUR.

In recent months, carry trades - i.e. borrowing in low-interest rate currencies and investing assets in high-interest rate currencies, above all by hedge funds – have led to an increasing weakening in the low-interest rate currencies JPY and CHF, this being entirely contrary to fundamental factors such as the development of current accounts, the economic growth, and purchasing power parity. However, central banks are increasingly warning of the imbalances building up in this context, which could lead to sudden, sharp corrections in exchange rates. The already enormously high fundamental imbalances will in any case be unable to continue growing over the long term, and a rebalancing will be hardly possible without a marked weakening in the USD and an appreciation of the JPY and the other Asian currencies. Similarly, albeit to a lesser degree, it is possible to make the same case for the EUR/CHF exchange rate, where we therefore expect a correction of 10% or more over the long term.

STOCK MARKETS

In terms of earnings, equities are not overvalued; however, stagnating or even declining earnings are to be expected.

Despite the sudden, sharp slump at the end of February, stock markets have on balance risen again, buoyed by very good corporate earnings, above all in Europe. Although the economic upswing means that increasing investment is again being made in renovation and expansion, there are still high free cash flows, and they are being used partly for share buybacks and takeovers, thus lending further upward momentum to share prices. For some time earnings have been increasing more strongly than most sensible yardsticks would suggest, and in most countries and sectors are at a very high level. In free markets, this is hardly sustainable over the long term. The earnings expectations of the market participants are overly optimistic. This will lead to disappointments, and will have a correspondingly negative impact on the markets.

This outlook applies to stock markets as a whole, but it is necessary to draw certain distinctions in respect of individual markets. In Japan, for example, profit margins are much lower than in the other major industrialized nations and have good potential for improvement in the near term. Equity investments in Japan therefore still seem relatively attractive to us, in particular due to the low valuation of the JPY. Other countries in Asia such as South Korea or Thailand are also very cheaply valued in terms of their fundamentals. As regards sectors, energy stocks and financials are offering the most attractive P/E ratios and dividend yields. Even though we are cautious about the earnings trend from here onwards, especially in the case of banks, selected stocks from these sectors strike us as being interesting.

Dr. Max Rössler

INVESTMENT POLICY

2nd TRIMESTER 2007

BASIS	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1.47	1.00	0.64	1.00	107
GDP Growth					
actual	2.2%	3.3%	3.0%	3.1%	2.3%
6 months	→	→	↘	↘	→
3 years	→	→	→	↘	↗
Inflation					
actual	0.2%	1.9%	3.1%	2.4%	-0.2%
6 months	↗	↗	↗	↗	↗
3 years	2.5%	3.0%	3.0%	3.5%	1.5%
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
Price/Sales	1.6	0.8	1.3	1.5	0.9
Dividend yield	1.5	2.4	3.6	1.8	1.1
Price/Book	3.0	2.0	2.6	2.9	2.0
Price/Earnings actual	17	15	17	18	21
Price/Earnings estimate	16	14	13	16	22

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	2.3%	4.0%	5.6%	5.4%	0.7%
6 months	↗	↗	→	→	↗
Swap Rates (10 years)					
actual	3.1%	4.3%	5.5%	5.3%	1.9%
6 months	↗	→	→	→	↗
3 years	↗	→	→	↗	↗
Currencies					
actual		1.64	2.42	1.21	1.02
6 months		↘	↘	↘	↗
3 years		↘	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	7'400	7'300	6'470	1'470	1'720
6 months	→	→	→	→	↗
3 years	→	→	→	↘	↗
Real Estate Market	↗	↗	→	↘	↗

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: April 20, 2007

STOCK RECOMMENDATIONS MAY 2007

	SECTOR	SWITZERLAND	EUROPE	USA	REST OF WORLD
ENERGY	**Oil & Gas**		Statoil / OMV Royal Dutch Shell Total / ENI / Repsol	Öl ETF (XLE)	Gazprom / Lukoil Surgutneftegaz
	Infrastucture & Services			Ölservice ETF (OIH)	Keppel Transneft
BASIC MATERIALS	**Chemicals**	Clariant Ciba	DSM Yara		
	Construction Materials	Holcim	Lafarge Italcementi pref		Siam Cement
	Commodities			Sherritt Gold ETF (XGD)	Anglo American Norilsk Nickel Vedanta
INDUSTRIALS	**Capital Goods**	ABB	Siemens Alstom IWKA		Toshiba Macquarie IIF
	Transport & Services				Hutchison Whampoa
CYCLICAL CONSUMPTION	**Automobiles**		DaimlerChrysler		
	Cyclical Consumption	Vögele			
	Media	Publigroupe			Singapore Press
NON-CYCLICAL CONSUMPTION	**Food**	Nestlé Emmi	Südzucker		CP Foods
	Non-cyclical Consumption				
HEALTH CARE	**Pharma & Biotech**	Novartis Roche GS	Pharma ETF Bayer	Pharma ETF (PPH) Schering-Plough Pfizer/Myriad	
	Medtech			Medtronic	
FINANCIALS	**Banks**	Credit Suisse	Almancora Raiffeisen Internat.		State Bank of India Topix Banks ETF DBS Group
	Insurance	Swiss Re Zurich	Münchner Rück Hannover Rück		
	Financial Services		ING		
TECHNOLOGY	**Hardware**		Philips		Samsung pref
	Software			Oracle	
UTILITIES	**Utilities**		E.On / RWE pref Iberdrola Fortum		UES
	Telekom	Swisscom	Belgacom BT Group		NTT
CERTIFICATES	**Index**				Singapore ETF (EWS) Taiwan ETF (EWT) Malaysia ETF (EWM)
	Style	Pilatus			Bottom Fishing RIM CC Bioscience

INVESTMENT STRATEGY

2nd TRIMESTER 2007

RETIREMENT

Currencies

- Overweight CHF
- Lower weighting for EUR
- USD at a minimum
- 0-10% various currencies, incl. precious metals

Categories

- Bond maturities 3-5 years
- Up to 5% dividend stocks
- Up to 5% structured products with capital protection
- Up to 5% real estate stocks
- Up to 10% alternative investments

HARVESTING
BVG ABSOLUTE / ALPIN

Currencies

- Overweight CHF
- Normal weight EUR
- USD at a minimum
- JPY buy up to 10%
- Up to 10% various currencies (e.g. SGD)
- Up to 10% precious metals

Categories

- Bonds
  - EUR and CHF bonds
  - Good quality
  - Short duration
- Equity portfolio
  - Value stocks and dividend stocks
  - Energy, pharma and infrastructure
  - Underweight for small caps
  - Asian dividend stocks
- Opportunities
  - Japan: Topix and Topix Small Cap
  - Groi on Asian Currencies
  - RUB/USD Groi
  - S&P 500 Bear Groi
- Up to 25% alternative investments
- 5-10% real estate stocks (Switzerland, Europe, Asia)
- Up to 5% private equity

SPORT / HOCHALPIN

Currencies

- Long JPY/CHF
- Long Asian currencies/USD
- Long RUB/USD
- Long Gold/USD

Categories

- Bonds
  - Short durations only for temporary investments
- Equity portfolio
  - Energy, pharma and infrastructure
  - Taiwan, Thailand, Singapore
- Opportunities
  - Small caps Japan
- 20-50% alternative investments
- 10% real estate stocks (Switzerland, Europe, Asia)
  - J-REITs
  - Singapore REITs
- Up to 10% private equity

The recommendations are dependent on market developments and are subject to change without prior notice.

WHAT ARE «BEAR SPREADS»?

AN IDEA FOR PARTIAL HEDGING ON EQUITIES

Bear spreads are options strategies where you buy put options close to the current level and then sell these put options at a strike price around 15% lower. If the market now falls by around 15%, we are protected against this drop in share prices, but no further. If share prices continue to rise, we post gains on the equity portfolio and have in essence paid an insurance premium.

The costs of such a strategy are around 3% for half a year. A partial hedge, e.g. of 10% of the portfolio would therefore cost around 0.3% on the overall portfolio. The maximum gain is 12%, or 1.2% in terms of the portfolio as a whole. Bear spreads cannot eliminate the risks of a stock market correction, but they can cushion the blow. We are gradually implementing this strategy. In stronger periods, we will phase in further tranches, i.e. hedge additional parts of the equity holdings.

We have taken as our example here the US Broker Index. These stocks have corrected strongly in every phase of stock market turbulence. We will be happy to discuss this example with you in person.

«BEAR SPREAD» ON US BROKER INDEX (XBD)

Philipp Murer

WHERE WE GET OUR IDEAS

AN INVALUABLE INTELLIGENCE NETWORK

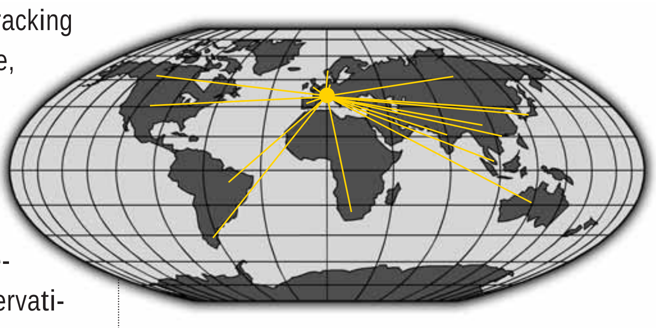
The investment approach that we have developed in-house over the past 11 years has proved its worth in the financial markets both in good times and in bad. It takes forward the theories developed in specialist courses and universities and matches them to the actual marketplace. At the time, I too accepted the theories that prevailed in the early 1990s, but happily in the course of my discussions with clients I soon learnt the secret of «absolute thinking». And from our regular meetings with CEOs and CFOs we have refined our understanding of the factors influencing the various sectors of the market. We have also learned much from the hedge fund managers with whom we have now worked for over 10 years. They have introduced us to new strategies and new markets that we did not originally follow. All this is combined in our current approach, which we define as a solid assessment of the fundamentals, blended with a knowledge both of short-term market sentiment and also of the likely influence of money flows over the medium-term.

Basic attitude holds the key

Investing is our passion. There is nothing more fascinating than tracking new developments worldwide, receptive to the ideas that we discover in our travels in foreign countries. This is how we are able to pursue a global, forward-looking strategy from Lucerne. We are conservative, in that we are unwilling to lose money, but also innovative, in our objective approach to new opportunities and strategies. Our investment philosophy is value-oriented and anti-cyclical. As the saying goes – «you make your bed and you lie on it», and we consider it to be vital to identify new developments at an early stage, and reflect them in our portfolios.

Invaluable network

Our network of money managers is of particular importance to us. These specialist investors are mostly highly intelligent, entrepreneurial and ambitious. Above all, they invest their own money in their ideas, which is the great difference between them and the research departments of the big banks, who on the whole write papers without being prepared to take on risks themselves.



Our own scenarios the touchstone

We check all ideas developed in this way both for their probability factor and for their suitability to our own scenarios. After all, we only want to implement ideas that match our fundamental outlook. That way we avoid all unnecessary risks.

Common sense

Our common sense approach allows us to be detached from the short-term obsessions of the often hectic stock market world. It allows us to identify many opportunities, but of course not all, and it prefers a medium-term rather than a short-term focus. It is a tried-and-tested concept, suitable for investors who see investment as a forward-looking, market-oriented activity. With our two strategy funds Reichmuth Alpin (conservative) and Reichmuth Hochalpin (dynamic), you can easily track the success of our common sense approach on our website – or by talking to us, as we are always open to suggestions, advice and new investment ideas.

FROM THE IDEA TO THE DECISION

GLOBAL NETWORK	REVIEW WITH R&CO SCENARIOS	ANALYSIS ACCORDING TO R&CO INVESTMENT APPROACH	
Clients Entrepreneurs CEO's / CFO's Money Manager	Market Recession Euphoria Crisis Inflation	FUNDAMENTAL ANALYSIS Long-term dominating	INVESTMENT DECISION
		MONEY FLOWS Mid-term significant impact	
R&Co Research Desk Research Field Trips		SENTIMENT Short-term dominating	

Christof Reichmuth
General Partner

COMBINING «HAVING» WITH «BEING»

DANIEL WALDBURGER ON FAMILY FOUNDATIONS

A focused investment strategy and an investment policy in line with the market are part and parcel of our daily business. However, the need for «identification with clients» within our integrated service philosophy also demands asset structure solutions that are tailored to specific individual requirements. In the example below, we had to find an early inheritance solution for heirs with different skill sets.

Difficult scenario

A couple have built up a flourishing company. The father and mother love their son and daughter, but one of the children does not have a head for money and neither of them is suitable for taking over the firm. To safeguard the jobs of their workers, the couple decided with a heavy heart to sell their «third baby», the company. The buyer was a large group, which paid in cash.

INTEGRAL WEALTH MANAGEMENT IN THREE STEPS

1. SALE	2. MARRIAGE- / HERITAGE CONTRACT	3. NEW STRUCTURE
Company sale to a large corporation	3/4 to spouse and 2. child	3/4 Free wealth Opportunistic investment strategy
	1/4 to problem child	1/4 FL foundation Foundation board decides Conservative investment strategy

Investing these liquid assets was a pleasure, but it was more difficult to determine the right asset structure for the clients in this phase of their lives to ensure that all the family members would be well taken care of, both while the couple were still alive and thereafter.

Bespoke structure

The father, who is very decisive by nature, wanted to have a conservative structure for the one spendthrift child, while leaving the other – and himself and his wife – every scope to also use their portion of the assets for further value creation. The father and mother therefore decided to split the assets.

The first step in this process was to conclude a marital property and inheritance contract. After the sale of the company, the parents gave the problem child a higher portion than the compulsory portion required under Swiss law, and did so in the form of a foundation under Liechtenstein law. The object of this foundation is to provide for the living costs of this child and any family it may have, if possible from the investment income but where necessary from the capital. Any amount remaining from these assets should be made available only to the descendents of this child, or if there are none, to the other child and its descendents.

Power of disposal separated from assets

The problem child therefore has no power of disposal over the assets. With the foundation structure, the foundation board plays a key role. By law, it must contain at least one person from the Principality of Liechtenstein, and the articles of association specified by the parents further stipulate that this body will include two people whom the family trust. These trusted individuals, together with the Liechtenstein lawyer, decide how much is to be paid out to the beneficiary and his/her family. They are responsible for ensuring that there are sufficient assets available, so that the initial beneficiary is never dependent on welfare.

Why not a Swiss foundation?

Actually, for this typical Swiss family, a Swiss foundation would seem to be the ideal solution, so why did we recommend a structure under Liechtenstein law? In the case of a Liechtenstein foundation, the founders – i.e. the parents – can still make changes during their lifetime. In the case of a Swiss foundation, however, even after the introduction of the new law on foundations such structures still cannot be changed for 20 years, and the often bureaucratic regulation of foundations makes them inflexible and indiscreet.

Looking back, an optimal solution

Unfortunately, in this case one of the parents who set up the company died young. For the surviving spouse it is a source of great comfort to know that everything was well taken care of beforehand. What was important when splitting up the assets was the unequivocal basis formed by the marital property and inheritance contract, which ensures that even if there were to be different levels of growth in the various assets there can be no dispute about the statutory compulsory portions. In short, the structure has proven its worth for all the members of the family.

Daniel Waldburger